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SUBJECT: QUARTERLY REVIEW OF THE SOUTH AFRICAN ECONOMY WITH KEY ECONOMIC STATISTICS

¶1. (U) Summary: Following three consecutive quarters of contraction, South Africa's GDP resumed positive growth in the third quarter of 2009. South African exports edged higher in the second half of 2009, following an improvement in the global economy. As a result, the deficit on the current account narrowed to 3.2 percent of GDP in the third quarter of 2009. This deficit was financed through substantial capital inflows on the financial account, which added to the increase in foreign reserves and resulted in a strong rand appreciation. The stronger rand together with an economy operating below capacity forced price inflation back to within the 3 - 6 percent target range. The response to the cumulative 500 basis points interest rate reduction between December 2008 and August 2009 was still in the pipeline, outweighed by stricter lending standards of commercial banks, and deleveraging of balance sheets by households and companies. The continued deceleration in the growth of the money supply (M3) and negative growth in domestic credit extension to the private sector, illustrated the continued financial pressure on households and companies. Almost 1 million jobs were lost during the first three quarters of 2009. End Summary.

The sources for the following tables are from the South African Reserve Bank (SARB), Statistics SA, and the Customs Department of the South African Revenue Service. Some figures from previous months may have changed as the result of statistical revisions.

¶I. MONTHLY FIGURES

¶2. EXCHANGE RATES
Rand/US Dollar Exchange Rate (monthly average)

2008	2009		
Sep 8.05	Jan 9.90	May 8.37	Sep 7.52
Oct 9.67	Feb 10.01	Jun 8.05	Oct 7.48
Nov 10.12	Mar 10.00	Jul 7.95	Nov 7.52
Dec 9.95	Apr 9.02	Aug 7.94	Dec 7.50

Trade-Weighted Rand (monthly average; 2000 = 100)

2008	2009		
Sep 66.11	Jan 57.07	May 66.49	Sep 70.83
Oct 57.32	Feb 57.66	Jun 67.84	Oct 70.45
Nov 56.61	Mar 57.81	Jul 68.48	Nov 69.63
Dec 56.38	Apr 63.36	Aug 68.52	Dec 69.68

Comment: In 2009, the rand regained most of its 2008 losses and appreciated by 27 percent against the dollar and 24 percent against the trade-weighted average exchange rate of the rand. The sharp improvement in the exchange rate is largely attributable to the

improvement in South Africa's current account deficit, an increase in the risk appetite of international investors and the subsequent acquisition of domestic securities, a surge in commodity prices, and the weakness of the U.S. dollar. The strengthening of the rand will constrain the competitiveness of South African exporters in international markets. Analysts believe the rand would remain strong in the early part of 2010, due to a combination of dollar weakness as well as an inflow of foreign currency in the run up to the 2010 FIFA World Cup. End Comment.

¶3. INFLATION (year-on-year)

Q	2009 Jul Jul	Aug Aug	Sep Sep	Oct Oct	Nov Nov
CPI	6.7	6.4	6.1	5.9	5.8
PPI	-3.8	-4.0	-3.7	-3.3	-1.2

Comment: Inflation slowed against the background of an economy operating below capacity and a significant appreciation of the rand. In October 2009, consumer price inflation fell within the 3-6 percent target range for the first time in 30 months. Producer price deflation contributed to the containment of consumer price inflation. Analysts expect inflation to rise above six percent in December 2009 due to base effects. The Monetary Policy Committee's (MPC's) most recent central inflation forecast projects that inflation will return to the 3-6 percent inflation target range, on a sustained basis, by the second quarter of 2010. Inflation is expected to average 5.7 percent and 5.8 percent in 2010 and 2011, respectively. End Comment.

¶4. MONEY AGGREGATES (percentage change year-on-year)

	2009 Jul	Aug	Sep	Oct	Nov
M1	3.82	4.86	1.15	1.53	2.52
M2	3.75	4.82	2.48	0.87	-1.04
M3	5.70	5.49	4.00	2.67	0.58

Comment: The slowdown in broadly defined money supply (M3) growth continued to reflect the subdued level of aggregate income, the relative low return on M3 deposits, lower inflation, and the deterioration in corporate and household balance sheets. End Comment.

¶5. DOMESTIC CREDIT EXTENSION TO THE PRIVATE SECTOR (percentage change year-on-year)

2009 Jul	Aug	Sep	Oct	Nov
3.31	2.34	1.49	-0.42	-1.59

Comment: During the third quarter of 2009, growth in banks' total loans and advances extended to the private sector turned negative, an occurrence last seen in the 1960s. Because of monetary lag, lower interest rates have yet to have their full impact on credit extension. Meanwhile, commercial banks are imposing stricter lending standards, and households and companies continue to deleverage. End Comment.

¶6. KEY INTEREST RATES (at end of month)

	2009 Aug	Sep	Oct	Nov	Dec
SARB Repo Rate	7.00	7.00	7.00	7.00	7.00
Prime Overdraft Rate	10.50	10.50	10.50	10.50	10.50

Comment: The South African Reserve Bank's Monetary Policy Committee (MPC) started reducing the repo rate in December 2008. By mid-2009,

it had reduced the policy rate by a cumulative total of 450 basis points. In August 2009, the MPC, mindful of the large output gap, reduced the repurchase rate by a further 50 basis points to 7 percent, the same level seen at the trough of the previous interest rate cycle. The MPC left interest rates unchanged at its September, October, and November meetings, based on its view that the domestic economic growth should improve in the coming quarters, while inflation continue its downward trend. Analysts expect interest rates to remain unchanged until early 2011. End Comment.

¶7. MERCHANDISE TRADE ACCOUNT (R millions)

2009	EXPORTS	IMPORTS	TRADE BALANCE
Jan	36,251.7	53,631.5	-17,379.7
Feb	44,061.8	44,632.4	-570.7
Mar	51,966.3	52,478.2	-511.9
Apr	40,656.3	42,112.4	-1,456.1
May	41,456.8	39,437.2	2,019.6
Jun	43,039.2	39,817.5	3,221.7
Jul	44,461.9	44,015.1	446.8
Aug	40,380.6	42,361.9	-1,981.2
Sep	45,535.4	41,664.3	3,871.1
Oct	44,088.9	50,797.6	-6,708.7
Nov	45,855.9	48,330.4	-2,474.6
TOTAL (1)	470,366.6	499,546.1	-29,179.4
JAN - NOV 2008			
TOTAL (1)	614,558.7	677,455.4	-62,896.7

(1) Total After Adjustments (year-to-date)

Comment: With the global economy showing signs of recovery, South African export volumes edged higher while the upward trend in the
QAfrican export volumes edged higher while the upward trend in the
international prices of gold, platinum and other export commodities gave further support to export revenues in the second half of 2009. At the same time, the volume of merchandise imports declined slightly as real GDP inched lower. While a substantially lower volume of crude oil was imported in the third quarter, this was partially offset by increases in other imports, including the acquisition of military aircraft by the government. Analysts expect export growth to exceed import growth in the first quarter of 2010, as the global economy and commodity prices continue to recover,

while weak household spending and falling fixed investment activity will cut into import demand. End Comment.

¶8. FOREIGN RESERVES ($ billions)

	2009 Jul	Aug	Sep	Oct	Nov
SARB Gross Gold and Foreign Reserves	35.7	38.0	39.1	39.8	40.5
SARB Net Open Forward Position	34.7	36.9	37.9	38.8	39.6

Comment: South Africa's gross gold and foreign reserves continued to rise, boosted mainly by the general allocation of Special Drawing Rights (SDRs) by the International Monetary Fund (IMF) to its member countries. The one-off SDR allocations made in August 2009 amounted to $2.4 billion. [Note: The SDR is an international reserve asset first created by the IMF in 1969 to supplement existing reserve assets of IMF member countries. SDRs are mainly held by the monetary authorities of the IMF member countries, and represent an unconditional right of a member country to obtain foreign exchange or other reserve assets from other IMF members in order to deal with situations involving inadequate international liquidity. End Note]. The narrowing of the current account deficit alongside increasing capital inflows also added to the increase in foreign reserves. End Comment.

II. QUARTERLY FIGURES

¶9. REAL GROSS DOMESTIC PRODUCT (percent change, seasonally adjusted and annualized)

	2008 Q4	2009 Q1	Q2	Q3
PRIMARY SECTOR	1.7	-23.4	6.0	-7.0
Agriculture	5.6	-3.7	-13.1	-9.8
Mining	0.1	-30.7	15.8	-5.8
SECONDARY SECTOR	-12.9	-19.4	-6.9	7.0
Manufacturing	-17.4	-25.5	-11.1	7.6
Electricity	-0.1	-8.1	1.9	4.2
Construction	6.3	10.7	8.7	6.1
TERTIARY SECTOR	4.2	-0.9	-1.7	0.8
Trade & catering	-0.3	-2.4	-5.9	-1.1
Transport & Comm.	1.6	-2.1	-1.0	1.2
Finance	7.5	-2.3	-3.8	-1.5
Government	6.2	2.1	3.1	4.9
TOTAL	-0.7	-7.4	-2.8	0.9

Comment: Following three consecutive quarters of contraction, South Africa's GDP resumed positive growth in the third quarter of 2009. This improvement was attributable to a decisive recovery in the secondary sector and a less prominent turnaround in the tertiary sector. Output in the primary sector declined over the period, but it was more than offset by the expansion in the other two main sectors. Analysts expect economic conditions to improve further in the final quarter of 2009 and throughout 2010.

Primary sector: Agricultural production declined further in the third quarter, reflecting somewhat smaller field crops, while mining output also receded as the production of platinum and gold contracted. Platinum production was strongly affected by strikes and mine accidents. Apart from the strengthening of the rand, which
Qand mine accidents. Apart from the strengthening of the rand, which adversely affected the mining sector in general, the gold-mining sector was also affected by an increase in intermediate expenditure which more than neutralized the potential benefits of the higher dollar-dominated gold price. Mining output, however, benefited from increased output of coal and iron ore in the third quarter. Growing demand from Eskom contributed to the increase in the production of coal, while the production of iron ore was largely underpinned by strong demand from China.

Secondary sector: The turnaround in the secondary sector was led by improved performance of the manufacturing sector. This was mainly driven by higher production of basic iron and steel products, motor vehicles, food, chemicals, and plastic products. Despite the growth in manufacturing production in the third quarter, output levels

remained repressed and production capacity utilization registered an average of 77.8 percent in the first three quarters of 2009, having averaged 83.8 percent in 2008. The increase in electricity, gas and water production reflected the recovery in the production activities of electricity intensive mining and manufacturing industries. The construction sector remained buoyant in the third quarter, benefiting from the upgrading of existing infrastructure and large projects such as the Gautrain, power stations, roads, sport stadiums and related infrastructure developments in preparation for the 2010 FIFA World Cup.

Tertiary sector: The turnaround in the tertiary sector can mainly be attributed to increased value added in the transport and communication and general government subsectors. Output in the transport sector edged higher, consistent with the higher volume of exports during the third quarter, while output in the communication sector increased moderately. The increase in general government output was due to rising employment levels as part of countercyclical efforts alongside structural efforts to improve

service delivery. Consistent with the lower disposable income of households, output of the trade sector remained subdued. The continued weak levels of credit extension to the private sector and the residential property market were symptomatic of the weak output performance in the financial service sector. End Comment.

¶10. BALANCE ON CURRENT ACCOUNT (R millions)

	2008 Q4	2009 Q1	Q2	Q3
Merchandise Exp.	166,501	130,149	120,311	122,426
Net Gold Exports	12,790	12,744	11,871	13,355
Merchandise Imp.	185,341	153,485	124,539	132,126
Income Payments	26,775	24,425	22,209	23,571
Service payment	34,820	31,121	31,443	30,840
Current Account	-30,827	-33,068	-20,824	-24,238
Current Account Deficit/GDP (percentage)	-5.4	-6.7	-3.4	-3.2

Comment: The moderate pick-up in international trade following strong contractions since the final quarter of 2008 led to an increase in the value of merchandise exports and had a positive impact on South Africa's trade account. However, the larger trade surplus was partly neutralized by an increase in service, income and current transfer payments to the rest of the world, causing the deficit on the current account as a percentage of GDP to narrow only slightly from 3.4 percent in the second quarter to 3.2 percent in the third quarter. The current account deficit is now at its lowest level since the second quarter of 2005. The smaller shortfall on the current account makes South Africa less dependent on capital inflows and reduces the rand's vulnerability to swings in global risk appetite. Analysts foresee the current account to stay at its current levels in the near future. Although the current account deficit might deteriorate lightly from the second quarter of 2010 as imports start to pick up on the back of a domestic spending recovery, increased service receipts from the influx of tourists Qrecovery, increased service receipts from the influx of tourists related to 2010 FIFA World Cup should help to limit the damage. End Comment.

¶11. BALANCE ON FINANCIAL ACCOUNT (R millions)

	2008 Q4	2009 Q1	Q2	Q3
Direct Investment	45,941	13,642	21,222	4,785
Portfolio Investment	-111,675	9,054	29,259	22,644
Other Investment	60,881	-9,044	-22,930	13,280
Financial Account	-4,853	13,652	27,551	40,709

Comment: The deficit on the current account was financed through increased capital inflows on the financial account of the balance of

payments. The surplus on the financial account was mainly due to a significant raise in portfolio investor's holdings of South African equities due to improved international appetite for investment in emerging-market economies. The cumulative inflow of portfolio investment during the first three quarters of 2009 was R66.0 billion, compared with an outflow of R71.5 billion recorded in 2008 as a whole. End Comment.

¶12. KEY LABOR MARKET VARIABLES (thousand)

	2008 Q4	2009 Q1	Q2	Q3
Employed	13,844	13,636	13,369	12,885
Unemployed	3,873	4,184	4,125	4,192
Total Labor Force	17,718	17,820	17,495	17,077
Not Econ. Active	13,176	13,166	13,585	14,095
Population 15-64	30,894	30,987	31,080	31,172
Unemployment rate (percentage)	21.9	23.5	23.6	24.5
Absorption rate (Employed/population ratio)	44.8	44.0	43.0	41.3

Comment: The unemployment rate in South Africa increased from 23.6 percent in the second quarter of 2009 to 24.5 percent in the third quarter of 2009. The number of jobs lost in the first three quarters of 2009 totals 959,000. Job losses were broad-based and occurred in both the formal and the informal sectors of the economy. Analysts expect more job shedding until the first quarter of 2010. End Comment.

III. ANNUAL FIGURES

¶13. NATIONAL BUDGET (R billions)

Fiscal Year Ending 31 March:	2006	2007	2008	2009
Total Revenue	411.2	482.7	559.8	608.8
Total Expenditure	416.8	470.2	541.4	635.8
Budget Balance	-5.6	12.5	18.3	-27.0
Budget Balance/GDP	-0.3	0.7	0.9	-1.2

Comment: The impact of weak domestic demand and the global economic crisis on tax revenues is primarily to blame for the change in fiscal stance in FY2009. Analysts expect corporate tax payments to deteriorate further in FY2010, especially since sectors such as manufacturing and mining, which have been savaged by the global downturn, loom large in the corporate tax take. Analysts expect the fiscal deficit to increase to about 8.0 percent of GDP in FY2010. End Comment.

¶14. GOVERNMENT DEBT (R billions)

Fiscal Year Ending 31 March:	2006	2007	2008	2009
Total Debt	528.5	551.9	571.7	616.4
of Which:				
-- Domestic	461.2	469.0	475.2	518.9
-- Foreign	66.8	82.6	96.2	97.3
-- Other debt	0.4	0.3	0.2	0.2
Debt Service Cost	50.9	52.2	52.8	54.3
Government Debt/GDP (percentage)	32.6	28.6	24.0	22.4
Debt Service Cost/GDP (percentage)	3.2	2.8	2.5	2.3

Comment: The SAG continued to finance its borrowing needs mostly
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from domestic sources. The decline in government debt as a percentage of GDP can be attributed to the rapid growth of the economy and the creation of fiscal surpluses in FY2007 and FY2008. However, total debt is set to increase to 41.0 percent of GDP in FY2013 to finance the projected budget deficits over the next three years. Debt service costs have shown a steadily declining trend

since peaking at 5.6 percent of GDP in the 1999 fiscal year. The decline in debt service costs has created the necessary "fiscal space" to run a large deficit in FY2010 and maintain infrastructure spending to counteract the effects of the economic crisis. National Treasury expects debt service cost to increase from R54 billion (2.3 percent of GDP) in FY2009 to almost R100 billion (3.2 percent of GDP) in FY2013. End Comment.

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For additional information please consult the following websites:

South African Reserve Bank
South African Revenue Service
Statistics South Africa
National Treasury

GIPS